

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**



**CITY OF THE COLONY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

Pursuant to Generally Accepted Accounting Principles, the City of The Colony is providing this narrative overview and analysis of its financial activities for the fiscal year ended September 30, 2009. This Management's Discussion and Analysis (MD&A) provides additional information that was not contained in the Letter of Transmittal. Readers are advised to read both to gain understanding of the financial picture of the City. This discussion and analysis includes prior year data for comparison purposes.

Financial Highlights

- The City's total assets exceeded the City's total liabilities at the close of the fiscal year by \$169,499,945. Of this amount \$11,333,724 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$3,745,181, due mainly to increases in net assets of \$1,339,208 in governmental activities and \$2,405,973 in business-type activities.
- As of the close of the current fiscal year, The Colony's governmental funds reported combined ending fund balances of \$11,653,147, a decrease of \$4,838,832. \$6,632,542 is capital expenditures for streets, storm drainage, and municipal building renovations. The general fund has an increase in fund balance of \$43,680. The other special revenue and debt service comprised of the differences in the governmental fund balances. Out of the \$11,653,147 fund balances in the governmental funds, \$6,282,187 is available for spending at the government's discretion (unreserved and undesignated fund balance).
- At the end of the current fiscal year, unreserved and undesignated fund balance for the general fund was also \$6,445,698 or 30.64 percent of total general fund expenditures.
- The City's total long-term debt decreased by \$4,647,167 (4.81 percent) during the current fiscal year. The key factor in this decrease was the annual retirement of long-term debts. There was no refunding in the fiscal year.

Overview of the Financial Statements

The MD&A serves as an introduction to The Colony's basic financial statements. The Colony's basic financial statements comprise three components:

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements.

The report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of The Colony's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of The Colony's assets and liabilities, with the difference as net assets. Over time, the increases or decreases in net assets may serve as a useful indicator of whether the financial position of The Colony is improving or deteriorating.

**CITY OF THE COLONY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as incurred regardless of when cash is received or paid. Thus, revenues and expenses are reported on accrual basis even though cash flows occur in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of The Colony that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of The Colony include general government, public safety, streets, sanitation, and culture and recreation. The business-type activities of the City of The Colony include water and sewerage operation.

The government-wide financial statements include not only the City of The Colony itself (known as the primary government), but also a legally separate Economic Development Corporation and a legally separate Community Development Corporation for which the City of The Colony is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 15 to 17 of this report.

In the Statement of Net Assets and the Statement of Activities, the City is divided into three kinds of activities:

- Governmental Activities – Most of the City's basic services are reported as governmental activities, including the general government, public safety, municipal court, public works, culture and recreation, planning and zoning, public improvements, and code enforcement. Taxes and intergovernmental revenues principally support these services.
- Business-type Activities – Functions that are intended to recover all or a significant portion of their costs through user fees and charges are considered as business-type activities. The business-type activity of The Colony includes Water and Wastewater Utility.
- Component Units – The City includes two separate legal entities, The Economic Development Corporation and the Community Development Corporation in its report. Although they are legally separate, they are included as the component units because the City is accountable for them. Financial information for these component units is reported separately from the financial information presented for the primary government.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Colony, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of The Colony can be divided into three categories:

**CITY OF THE COLONY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

1. Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of The Colony maintains 16 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, and the capital projects fund, which are considered to be major funds. Non-major governmental funds are aggregated in total.

The City of The Colony adopts annual appropriated budgets for its General Fund, Debt Service Fund, Lake Parks Fund, Environmental Fund, Hidden Cove Park Fund, Special Events Fund, and Hotel/Motel Taxes Fund. The budgeted comparison statement has been provided for the general fund to demonstrate compliance with the budget.

2. Proprietary funds – The City of The Colony maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of The Colony uses enterprise funds to account for its water and sewer operation. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of The Colony's various functions. The Colony uses an internal service fund to account for its fleet maintenance services. Because the fleet maintenance services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The water sewer utility fund is considered to be a major fund of The Colony.

3. Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The city does not have a fiduciary fund.

**CITY OF THE COLONY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31 to 56 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of The Colony. This Management's Discussions and Analysis is part of the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of the close of the 2008-2009 fiscal year, The Colony's net assets (assets exceeding liabilities) totaled \$169,499,945.

The largest portion of The Colony's net assets (91.31 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of The Colony uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of The Colony's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot generate revenues to liquidate these liabilities.

An additional portion of the City's net assets (2.00 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$11,333,724) may be used to meet the government's ongoing obligations to citizens and creditors.

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 15,398,571	\$ 21,522,999	\$ 12,289,016	\$ 16,991,223	\$ 27,687,587	\$ 38,514,222
Capital assets	160,778,637	156,652,907	78,293,760	73,145,859	239,072,397	229,798,766
Total assets	\$ 176,177,208	\$ 178,175,906	\$ 90,582,776	\$ 90,137,082	\$ 266,759,984	\$ 268,312,988
Long-term liabilities outstanding	\$ 44,589,555	\$ 47,373,234	\$ 47,306,912	\$ 49,170,400	\$ 91,896,467	\$ 96,543,634
Other liabilities	2,898,236	3,452,463	2,465,336	2,562,127	5,363,572	6,014,590
Total liabilities	\$ 47,487,791	\$ 50,825,697	\$ 49,772,248	\$ 51,732,527	\$ 97,260,039	\$ 102,558,224
Net assets:						
Invested in capital assets, net of related debt	\$ 120,522,026	\$ 114,835,815	\$ 34,257,283	\$ 31,288,426	\$ 154,779,309	\$ 146,124,241
Restricted	1,378,540	969,106	2,008,372	1,927,384	3,386,912	2,896,490
Unrestricted	6,788,851	11,545,288	4,544,873	5,188,745	11,333,724	16,734,033
Total net assets	\$ 128,689,417	\$ 127,350,209	\$ 40,810,528	\$ 38,404,555	\$ 169,499,945	\$ 165,754,764

**CITY OF THE COLONY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

At the end of the current fiscal year, the City has positive balances in all three categories of net assets, for the government as a whole, as well as for its separate governmental and business activities.

The City's net assets increased by \$3,745,181 during the current fiscal year. About all of this increase represents increases in ongoing revenues outstripping similar increases in ongoing expenses.

**CHANGES IN NET
ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 3,552,280	\$ 4,788,732	\$ 13,219,584	\$ 12,989,227	16,771,864	\$ 17,777,959
Operating grants and contributions	1,629,588	2,866,700	1,799,074	170,058	3,428,662	3,036,758
Capital grants and contributions	3,965,947	6,706,427	391,870	1,018,773	4,357,817	7,725,200
General revenues:						
Property taxes	14,718,172	14,305,445	9,170	23,758	14,727,342	14,329,203
Sales taxes	3,096,768	3,055,468	-	-	3,096,768	3,055,468
Franchise taxes	2,049,184	1,807,584	-	-	2,049,184	1,807,584
Other taxes	129,444	125,573	-	-	129,444	125,573
Interest	294,167	725,623	199,739	552,763	493,906	1,278,386
Miscellaneous	894,184	479,157	858,255	464,046	1,752,439	943,203
Total revenues	<u>\$ 30,329,734</u>	<u>\$ 34,860,709</u>	<u>\$ 16,477,692</u>	<u>\$ 15,218,625</u>	<u>\$ 46,807,426</u>	<u>\$ 50,079,334</u>
Expenses:						
General government	5,943,434	5,457,879	-	-	5,943,434	5,457,879
Public safety	11,933,601	10,724,686	-	-	11,933,601	10,724,686
Public works	6,639,121	6,787,684	-	-	6,639,121	6,787,684
Culture and recreation	4,167,366	3,828,479	-	-	4,167,366	3,828,479
Interest on long-term debt	2,164,609	1,797,601	2,104,519	2,183,417	4,269,128	3,981,018
Water and sewer	-	-	10,109,595	9,937,795	10,109,595	9,937,795
Total expenses	<u>\$ 30,848,131</u>	<u>\$ 28,596,329</u>	<u>\$ 12,214,114</u>	<u>\$ 12,121,212</u>	<u>\$ 43,062,245</u>	<u>\$ 40,717,541</u>
Increase in net assets before transfers	(518,397)	6,264,380	4,263,578	3,097,413	3,745,181	9,361,793
Transfers	1,857,605	282,247	(1,857,605)	(282,247)	-	-
Increase in net assets	<u>1,339,208</u>	<u>6,546,627</u>	<u>2,405,973</u>	<u>2,815,166</u>	<u>3,745,181</u>	<u>9,361,793</u>
Beginning net assets (October 1)	127,350,209	120,803,582	38,404,555	35,589,389	165,754,764	156,392,971
Ending net assets (September 30)	<u>\$ 128,689,417</u>	<u>\$ 127,350,209</u>	<u>\$ 40,810,528</u>	<u>\$ 38,404,555</u>	<u>\$ 169,499,945</u>	<u>\$ 165,754,764</u>

Governmental Activities. Governmental activities increased the City's net assets by \$1,339,208, thereby accounting for 35.75 percent of the total growth in the net assets of The Colony. Key elements of this increase are as follows:

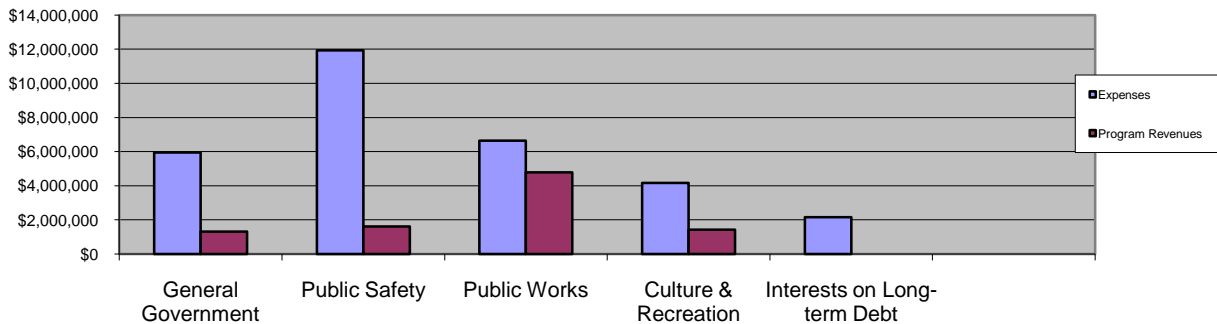
Total Property taxes (including collections in the Utility Tax Supported Debt) increased by \$398,138 during the year. This increase was due to commercial and residential new development. The certified roll for 2008-2009 went up by \$127,504,764 or 6.36%. General Fund sales tax collection has increased by \$41,300, franchise taxes increased by \$241,600, however, licenses and permits decreased by \$488,276 and \$429,620 in interests and earnings. These decreases are the result of the local economy and the historical low interest rates affected by the financial crisis.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. The Fire Department has hired one firefighters/paramedic to adequately staff the new fire station opened at the end of 2007.

**CITY OF THE COLONY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

A new part-time position as a Convention and Visitor Bureau Coordinator is added to serve the tourism industry and attract visitors to the City in fiscal year 2008-2009. Some positions are eliminated due to improvements of efficiencies in service deliveries. Debt service payments are about the same as last year due to a \$1.7 million debt issuance in the later part of the year. Multiple capital projects in streets, parks and recreations and others are underway. The projects were financed by prior and current debt issuances. The debt sale was issued to finance equipment enhancements.

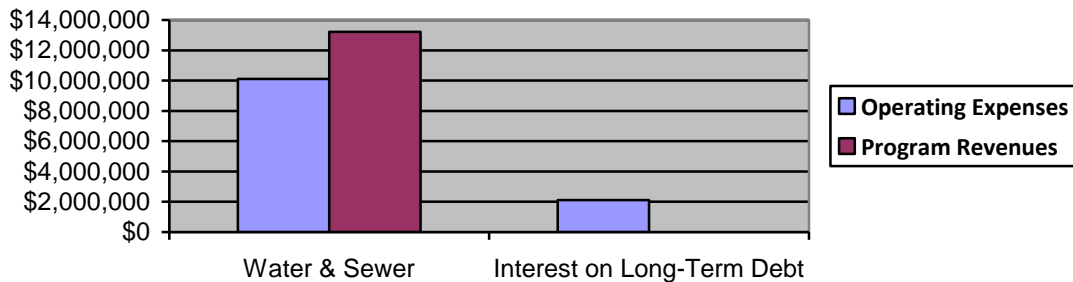
EXPENSE AND PROGRAM REVENUES - GOVERNMENTAL ACTIVITIES



Business-type activities. Business-type activities increased the City's net assets by \$2,405,973, accounting for 64.24 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

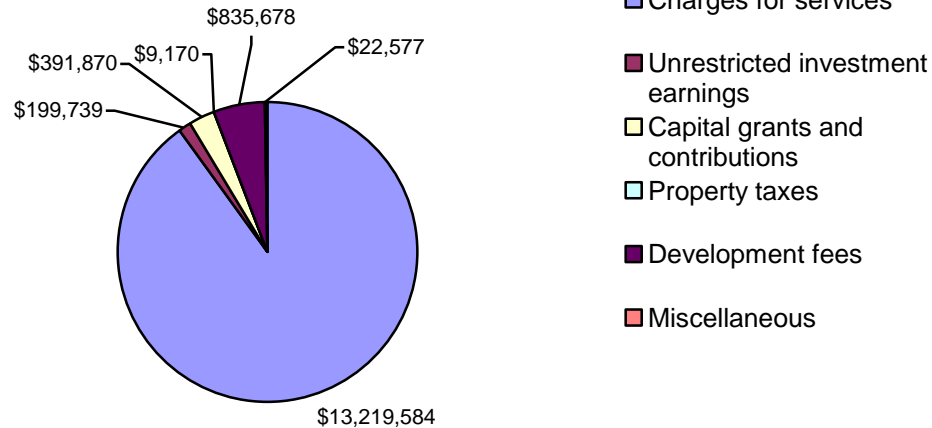
A majority of the increase is due to the \$391,870 capital contributions to the Utility Fund which represents water mains and sanitation sewers built by developers at the new development. Charges for services also increased by \$230,357 due to rate increases and increased consumptions.

**Operating Expense and Program Revenues
Business-type Activities**



**CITY OF THE COLONY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

**REVENUE BY SOURCE - BUSINESS-TYPE
ACTIVITIES**



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$11,653,147 a decrease of \$4,838,832 in comparison with the prior year. Approximately 53.90 percent of this total amount (\$6,282,187) constitutes the unreserved and undesignated fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is reserved and designated to indicate that it is not available for new spending because it has already been committed to:

1. Liquidate contracts and purchase orders of the prior period (\$226,285),
2. Reserve for capital projects (\$2,832,183),
3. Pay debt service (\$1,301,247), or
4. Reserved for court security and technology (\$288,755)
5. Designated to liquidate deficit at Hidden Cove Park (\$165,000).
6. Restricted for Special Revenue Funds (\$557,490)

The general fund is the chief operating fund of The Colony. At the end of the current fiscal year, unreserved and undesignated fund balance of the general fund was \$6,445,698, representing the total unreserved and undesignated fund balance. As a measure of the general fund's liquidity, it may be useful to compare both unreserved and undesignated fund balance and total fund balance to total fund expenditures. Unreserved and undesignated fund balance represents 30.64 percent of total general fund expenditures (excluding operating transfers to other funds), while total fund balance represents 32.04 percent of that same amount.

**CITY OF THE COLONY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

The fund balance of the City's general fund increased by \$43,680 only during the current fiscal year with significant increases or decreases in revenue and expenditures.

The debt service fund has a total fund balance of \$1,301,247, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$177,323. The City has a dedicated property tax for general debt service. The property tax produced revenues of \$4,328,641 in the current fiscal year. Debt service payments have decreased by \$4,556.

Proprietary funds. The City's proprietary funds provide the same type of information found in the governmental-wide financial statements, but in more detail.

Decrease in unrestricted net assets of the Utility Fund at the end of the year amounted to \$661,750. The decrease was mainly due to expenses exceeding revenues. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

During the year, there was a \$625,316 decrease in appropriations between the original and final amended budget. Following are the main components of the increase:

- | | |
|--|------------|
| • Prior Year Encumbrance roll forward | \$303,401 |
| • Increase in transfers to other funds | \$349,000 |
| • Miscellaneous increases | \$14,877 |
| • Increase in transfers from other funds | (\$41,962) |

The increase in revenues of \$119,932 between final budget and actual was due to better projections of anticipated revenues in mid-year.

In the original budget, salary increases were included in the non-departmental budget. The budget for these salary adjustments was reallocated to individual departments in the final amended budget. During the year, revenues exceeded budgetary estimates and expenditures were less than budgetary estimates resulting in an increase in the general fund fund balance of \$439,498.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2009, amounts to \$239,072,397 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, water and sewer system infrastructure improvements, machinery and equipment, park facilities, and roads. The City's investment in capital assets for the current fiscal year increased by 4.0 percent (a 2.6 percent increase for governmental activities and a 7.0 percent increase for business-type activities).

**CITY OF THE COLONY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

Major capital asset events during the current fiscal year included the following:

- **Phase IIIC Streets Reconstruction** – This project includes the reconstruction of Aztec Drive from Blair Oaks Drive to Clover Valley Drive and Branch Hollow Drive from Arbor Glen Drive to South Colony Boulevard. The streets will be re-constructed to the same width as existing with 6" thick concrete reinforced with paving. Sidewalk and driveway returns within street right-of-ways will also be reconstructed and new water and sanitary sewer lines will be installed within the street right-of-way. This project is near completion with an estimated cost of \$1.2M.
- **Phase IIID Streets Reconstruction** - This project includes the initial review of Taylor Street from North Colony to Squires Drive to determine the feasibility of using recycled concrete technology to reconstruct the roadway. This project also includes the design and reconstruction of the North Colony Boulevard culvert headwall. The engineering plans will include wall and sidewalk replacement, re-grading of the parkway and drainage. This project is in the preliminary engineering phase with an estimated cost of \$38K.
- **North Colony Boulevard Widening** - This project includes the re-construction of North Colony from Curry Drive to Paige Road as a divided roadway with four travel lanes. The design includes drainage, water, wastewater, streetscape, traffic signal improvements, sidewalk reconstruction, new street lights and roadway improvements within the street right-of-way. The street will be reconstructed with 8" thick reinforced paving. This project is in the preliminary engineering phase with an estimated cost of \$570K.
- **FM 423 Widening Utility Relocations** - Widening FM 423 to eight lanes from SH 121 to Couar Alley and six lanes to the north city limit is a TxDOT project. Half Engineering is preparing the plans and specifications for the relocation of utilities and the 24" water transmission line from the Office Creek Pump Station to North Colony Boulevard. TxDOT will include the utility relocation work in their roadway construction plan bid.
- **Police and Courts Facility** – The design and expansion of the existing police and courts building. This project is in the phase I and IA construction phase with an estimated cost of \$7.6M.
- **Austin Ranch Fire Station** – Design for a new fire station at Austin Ranch. This project is in the architectural phase with an estimated cost of \$233K.
- **Public Service Station** – Design and construction for a new Public Services Station. This project is in the architectural phase with an estimated cost of \$482K.
- **Park Improvements**
 - **Hike & Bike** – Design and construction of a shoreline trail. This project is in construction with an estimated cost of \$2.9M.
 - **Miscellaneous Parks Improvements** – includes playground equipment, right-of-way/handicap accessible sidewalks, estimated cost \$100K.
- **Well Site #4** – Construction of a new potable water well at the Office Creek Pump Station site. The well has been completed and has passed all performance tests. Staff is currently working with the pump equipment provider, electrical contractor and Oncor electric for the permanent electrical service. The estimated cost of this project is \$2.4M.
- **Austin Ranch Force Main** - The improvement includes 8,100 linear feet of 12" wastewater forcemain to convey wastewater from the Austin Ranch Development and Tsai/Lonzar tract to the City's wastewater treatment plant. The force main will run from the proposed Austin Ranch Lift Station and connect to an existing 18-inch sewer line located on Plano Parkway across from the Edward Don facility. The wastewater in the 18-inch sewer line flows to the Master Lift Station #1. The estimated cost is \$545K.

**CITY OF THE COLONY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

- **Austin Ranch Lift Station** - Construction of a 2.66 million gallon per day (MGD) lift station to convey wastewater from the Austin Ranch Development and Tsai/Lonzar tract to the City's wastewater plant via an existing 18-inch sewer line on Plano Parkway. the 2.66 MGD flow is the initial/interim flow of an ultimate station with a future capacity of 6.9 MGD. The estimated cost of this project is 1.3M.
- **Austin Ranch Trunk Sewer** - Construction of a gravity trunk line to convey wastewater from the Austin Ranch Development to the Austin Ranch Lift Station. Estimated cost of this project is \$916K.

**CAPITAL ASSETS
(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
<u>Capital Assets Being Depreciated:</u>						
Water systems	\$ -	\$ -	\$ 40,202,792	\$ 26,833,538	\$ 40,202,792	\$ 26,833,538
Sanitary sewer systems	-	-	28,963,394	26,327,827	28,963,394	26,327,827
Drainage system	-	-	404,972	445,573	404,972	445,573
Buildings	9,123,420	9,241,604	126,500	123,854	9,249,920	9,365,458
Improvements other than buildings	7,645,544	7,434,189	-	-	7,645,544	7,434,189
Aquatic Park	992,567	1,041,220	-	-	992,567	1,041,220
Machinery and equipment	3,377,325	3,631,321	434,747	159,707	3,812,072	3,791,028
Organization costs	-	-	-	-	-	-
Infrastructure	105,342,359	96,203,167	2,208,868	2,407,073	107,551,227	98,610,240
Total	<u>\$ 126,481,215</u>	<u>\$ 117,551,501</u>	<u>\$ 72,341,273</u>	<u>\$ 56,297,572</u>	<u>\$ 198,822,488</u>	<u>\$ 173,849,073</u>
<u>Capital Assets Not Being Depreciated:</u>						
Land & Land Improvements	\$ 4,358,020	\$ 4,358,020	\$ 3,202,360	\$ 2,891,887	\$ 7,560,380	\$ 7,249,907
Right-of-Ways	24,682,941	24,682,941	-	-	24,682,941	\$ 24,682,941
Construction in Progress	5,256,461	10,060,445	2,750,127	13,992,496	8,006,588	\$ 24,052,941
Total	<u>\$ 34,297,422</u>	<u>\$ 39,101,406</u>	<u>\$ 5,952,487</u>	<u>\$ 16,884,383</u>	<u>\$ 40,249,909</u>	<u>\$ 55,985,789</u>

Additional information on the City's capital assets can be found in note 4 on pages 44-45 to the basic financial statements.

**OUTSTANDING DEBT
GENERAL OBLIGATION AND REVENUE BONDS**

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
General Obligation Bonds	\$ 14,420,000	\$ 15,040,000	\$ -	\$ -	\$ 14,420,000	\$ 15,040,000
Certificates of Obligation	28,784,840	31,269,761	26,170,860	26,544,760	54,955,700	57,814,521
Tax Notes	-	-	-	-	-	-
Revenue Bonds	-	-	20,000,000	21,445,000	20,000,000	21,445,000
Total	<u>\$ 43,204,840</u>	<u>\$ 46,309,761</u>	<u>\$ 46,170,860</u>	<u>\$ 47,989,760</u>	<u>\$ 89,375,700</u>	<u>\$ 94,299,521</u>

**CITY OF THE COLONY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$94,839,456. Of this amount, \$74,839,456 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt (\$20,000,000) represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

The City's total debt decreased by \$7,085,785 during the current fiscal year. The key factor in this decrease was due to retirement of debts. Additional information on the City's long-term debt can be found in note 5 to the basic financial statements.

The City's general and revenue obligations maintain an AA- and A- rating respectively from Standard & Poor's and an A2 and A3 rating respectively from Moody's Investors Service. The high rating speaks well of the City's proactive approach to economic development and financial management.

State Statutes limit the amount of general obligation debt, a governmental entity may issue up to \$2.50 per \$100 of its total assessed valuation. The current debt limitation for the City is \$53,343,809, which is in excess of the City's outstanding general obligation debt. The revenue supported debt in the Utility Fund is limited to the net revenues equaling to at least 1.10 times the maximum annual principal and interest requirements and 1.25 times the average annual principal and interest requirements of all parity bonds to be outstanding. The net revenues in the Utility Fund are higher than the required limitations and are monitored each year for appropriate coverage.

Economic Factors and Next Year's Budgets and Rates

- As of December 2009, the unemployment rate for the City is at 7.3 percent, which is an increase from a rate of 5.3 percent a year ago. The City's unemployment rate is better than the state's average unemployment rate at 8.0 percent and the national average rate at 10.0 percent.
- Ad valorem tax base also increased by \$12,524,107 for 2009-2010.
- Total sales tax is projected to increase by \$8,000 only due to the slow growth of retail sales.
- Franchise fees are budgeted to grow by \$31,900 because of slight increase in households and commercial establishments.
- Fines and forfeitures will increase by \$300,500 due to increase in citations with more patrol officers on the street.
- Licenses and Permits in the General Fund were projected to decrease by \$306,820 due to the global and regional downturn of the economy.
- Transfers from other funds to General Fund are budgeted at \$439,577 higher than 2008-2009.

The state of Texas and The Colony fare better than the national economy. The recession was started by the housing and financial crisis and has spread globally. The City is monitoring its revenues and expenditures carefully to avoid a significant reduction in fund balances. All of these factors were considered in preparing the City's budget for the 2009-2010 fiscal year.

**CITY OF THE COLONY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

During the current fiscal year, unreserved and undesignated fund balance in the general fund increased to \$6,445,698. There is a designation of \$165,000 to cover the Hidden Cove Park deficit. The City has also appropriated \$128,959 in encumbrances for spending in the 2009-2010 fiscal year budget. Due to the growth in revenues and control of expenditures, tax rate for 2009-2010 was reduced by .2 cents.

There is no increase in the water and sewer rates for all customers for fiscal year 2009-2010. Projected revenues are able to finance debt service on new debts to improve the aging water and sewer infrastructure and to provide enough revenues to meet increasing costs. Such improvements to the City's water and wastewater infrastructure will position the city to meet its population growth.

Requests for Information

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, The City of The Colony, 6800 Main Street, The Colony, Texas 75056.